

AR76

# Visionwall Incorporated

**2001 ANNUAL REPORT  
11 MONTHS**

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**VISIONWALL**

*The high performance,  
energy-efficient window  
and curtain wall system*

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Cover:  
Sheraton Wall Centre Hotel  
Vancouver, British Columbia

Photo by:  
Nick Lehoux  
Busby & Associates

## NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of shareholders of Visionwall Incorporated will be held on Friday, June 28, 2002 at 2:00 p.m. in the Grande Salon at Doucettes (formerly Centre Club), 2nd floor, Canada Trust Tower, 10120 - 103 Avenue, Edmonton, Alberta.

# Corporate Profile

**V**isionwall Incorporated's wholly owned subsidiary, Visionwall Corporation, custom engineers and manufactures proprietary energy efficient window and curtain wall systems for use in commercial institutional and industrial buildings. Buildings using these curtain wall systems require less energy to heat and cool, are more comfortable, are more quiet and can cost less to construct because of savings in the required heating and cooling equipment. Since opening its Edmonton manufacturing plant in 1989, Visionwall has emerged as the leader in the high performance window industry. The company generally enters into construction contracts to supply and in some cases install its products. Using a network of dealers and commissioned sales representatives, Visionwall markets its products throughout Canada, the United States and to East Asia. The company is continuing to expand its marketing reach to many of the other high growth markets in the developing world. Visionwall has an experienced and highly motivated management team with a proven track record of success in this industry. No other company can match Visionwall's technical expertise as it relates to the engineering, manufacturing and installation of energy efficient windows and curtain walls and the impact of these products on the buildings using them. With this strength, its superior proprietary technology and significant market presence in North America, Visionwall is well positioned to establish itself as one of the largest industrial companies supplying high technology window and curtain wall systems to the commercial building markets throughout the world.

The Class A Shares of Visionwall are listed for trading on the TSX Venture Exchange ("VWL.A"). At May 9, 2002 there were 10,077,852 (13,643,185 fully diluted) Class A Shares (one vote) and 434,014 Class B Shares (ten votes) issued and outstanding. Visionwall markets its products under the trade name VISIONWALL®, a registered trade mark owned by Visionwall Corporation. Visionwall manufactures its products using technology developed by a Swiss company. The Canadian and United States patents for this technology are owned by Visionwall Corporation.

Manufacturing Facility  
 Edmonton, Alberta



# Mission Statement

Our mission is to:

*"Maintain our position as the leader in the high performance window industry."*

To accomplish our mission we will:

- Provide our customers with the highest quality product, within budget and on time;
- Provide our people with rewarding employment; and
- Generate profits for our shareholders.

## Highlights

Sheraton Wall Centre  
Vancouver, British Columbia



- Changed the financial year to end on December 31<sup>st</sup> instead of January 31<sup>st</sup>.
- Achieved revenue of \$11.2 million during the eleven months ended December 31, 2001 compared to \$13.1 million during the previous fiscal year.
- Achieved a 30.1% gross margin on contract revenue compared to 26.4% the previous fiscal year.
- Incurred a small loss during the eleven months ended December 31, 2001 primarily due to a disruption in order flow during the fall of 2001 resulting from the events of September 11th, 2001.
- Arranged \$500,000 of equity and \$1.57 million of debt financing during the year.
- \$11 million of sales orders in hand for production after December 31, 2001.
- Manufactured and delivered a majority of the product for a \$6.5 million contract to supply the windows and curtain wall for a convention centre being constructed in Montreal.
- Sold and completed contracts worth \$2 million to supply the windows and curtain wall for colleges being constructed in British Columbia and Washington.
- Over the past two years have completed approximately \$9 million of contracts to supply its energy efficient window and curtain wall system for the United States and Canadian showroom upgrade program of a major automobile manufacturer with an additional \$12 million expected over the next 12 months.
- Continued to build significant momentum in the North American commercial window and curtain wall market.
- Market trends strongly favour the construction of more energy efficient buildings.
- Many excellent sales prospects are anticipated to become orders over the coming months.
- Revenue target is \$18 million for 2002.
- Expects revenue to grow 50% per annum over the next several years.

# President's Report to Shareholders

**O**ver the past year Visionwall has continued to make substantial progress in enhancing its business position. The demand for energy efficient building products continues to grow and is gaining momentum. The Corporation is experiencing an extremely high level of interest in its high performance windows and curtain walls and has many exciting sales prospects. A number of these prospects are anticipated to become orders over the coming months. In particular the Corporation anticipates more than \$12 million in additional orders to supply its products for automobile showrooms over the next 12 months as part of a major manufacturer's upgrade program. At present the Corporation has nearly \$11 million in orders for production after December 31, 2001 and expects its order backlog to grow significantly over the coming months.

## OPERATING PERFORMANCE

During the eleven months ended December 31, 2001, the Corporation continued to achieve excellent gross margin performance and kept its overhead costs in line with its planning, however, it did not achieve a sufficient sales volume for its operations to be profitable. Unfortunately the tragic events in the United States on September 11th, 2001 disrupted and delayed the decisions on the construction of many building projects in North America. As a result the flow of orders during the last part of 2001 and early 2002 was less than had been projected. In particular the volume of automobile showrooms that were produced during the last part of the year was less than anticipated. Earned revenue for the eleven month period was also reduced more than \$2 million due to one contract failing to proceed and a second customer falling behind schedule which caused a delay in Visionwall's production progress.

Visionwall incurred a \$496,642 loss for the eleven months. This includes \$329,822 for the amortization of capital assets, therefore the loss only consumed \$166,820 of the Corporation's working capital. This loss is small in relation to the Corporation's nearly \$9 million in total assets and has had no significant impact on the Corporation's liquidity.

## REVENUE TARGETS

The key to the Corporation increasing its profitability is to reach higher sales volumes. The Corporation's overhead costs are relatively fixed and will not change significantly as contract revenue grows. Therefore it will become highly profitable as sales grow above its \$16 million break even point. The Corporation is targeting revenue of \$18 million in 2002, and to grow 50% per year thereafter.

## MARKET

Although the construction market slowed in the United States following the September 11th, 2001 attacks, it has been gaining strength over the past few months and is expected to continue growing stronger during the remainder of this year.

**THE  
CORPORATION  
CONTINUED TO  
ACHIEVE  
EXCELLENT  
GROSS MARGIN  
PERFORMANCE**

**VISIONWALL  
IS WELL  
POSITIONED TO  
TAKE ADVANTAGE  
OF THIS  
IMPORTANT  
MARKET TREND**

Festo Inc. Corporate Headquarters  
Mississauga, Ontario

More importantly the market trends are firmly in the direction of demanding more energy efficient products. The energy price spike and shortages that occurred in 2000/2001 have helped to accelerate this trend.

## **ENERGY CODES**

The increasing demand for Visionwall's products is in part because many jurisdictions are now enforcing energy codes mandating more energy efficient buildings. In 1989 the American Society of Heating, Refrigeration and Air Conditioning Engineers ("ASHRAE") issued Standard 90.1 to provide minimum requirements for the energy-efficient design of buildings except low-rise residential. The U.S. Energy Policy Act 1992 mandated each State to meet or exceed ASHRAE 90.1 within certain time constraints. As of May 2002, thirty two States have enacted energy codes that meet or exceed ASHRAE 90.1. Another nine States have enacted energy codes that meet or exceed ASHRAE 90.1 with respect to State owned or funded buildings.

Canada has issued its Model Building Energy Code which is under consideration by the Provinces for adoption. The United Kingdom's new energy code became effective in the spring of 2002. A number of individual cities and municipalities have adopted energy codes in the USA and Canada. Many other countries and jurisdictions around the world have or are in the process of implementing building energy codes.

These new energy codes are accelerating the move toward energy efficient building design. To comply with these codes buildings must have less window area or use more energy efficient windows. Visionwall is well positioned to take advantage of this important market trend.

## **PHOTOVOLTAIC PANELS**

Visionwall's unique curtain wall system can easily incorporate photovoltaic (PV) panels to generate electricity. A PV panel consists of a solar cell array laminated between two glass lites. A curtain wall is a natural application for PV panels. The economic viability of PV panels has improved with the trend toward the deregulation of power generation. Electricity generated by PV panels, if not used, can now be resold in many jurisdictions. It is expected that as PV panel costs decrease and energy costs increase demand for PV panels will grow dramatically. This could become an important market for Visionwall in the future. Visionwall is working on several prospective curtain wall contracts with the objective to incorporate PV panels into the design.

## **BLAST RESISTANCE**

Airborne shattered glass is responsible for many injuries and deaths in tragic incidents such as the Oklahoma bombing. Independent testing ranks VISIONWALL® high as a blast resistant window qualifying it for US Government blast resistant building projects. Demand for this is growing as the US Government and others move to make their buildings more blast resistant.

## **HIGH RISE RESIDENTIAL**

The Corporation is developing a product line better tailored to the needs of high rise residential construction. This is an important market segment that has tended to use poor quality and less expensive windows. With the move toward more energy efficient building design Visionwall believes it can capture a significant share of this

market with a quality, energy efficient wall system that is less expensive than its regular curtain wall products used on office towers.

## **BENEFITS FOR BUILDING DESIGN**

There is a growing movement within the building design and development communities to take advantage of high performance building envelopes to positively impact many aspects of the design, use, and operation of buildings. Visionwall recently attended a "Green Building" conference in New York where it was invited to present its technology. This is the second year it was honoured with this invitation. The conference was well attended by senior industry people and there was a very high level of interest in Visionwall's products and their potential impact on building design. Several excellent sales prospects developed from this conference.

By using VISIONWALL®, a building's initial construction costs can be reduced and of course long term energy costs can be saved. In addition, VISIONWALL® allows the use of innovative designs for heating, cooling and ventilation systems to further reduce construction and energy costs, while improving quality and comfort. For example, the warm inside glass temperatures allow the use of displacement ventilation for improved indoor air quality. Smaller heating and cooling loads make the use of radiant panel systems more effective and the use of in floor heating and cooling systems more effective. A reduction in the amount and size of the heating and cooling equipment saves space and can allow a reduction in floor to floor heights for office buildings. This benefit can be taken as an immediate construction cost saving, or a developer can add up to about 20% more leasable space for the same building height. This would greatly increase an office building's value in jurisdictions with height restrictions.

VISIONWALL® can add enormous value to a building provided the design takes advantage of the many potential benefits it brings.

**VISIONWALL  
CAN ADD  
ENORMOUS  
VALUE TO A  
BUILDING**

## **INTERNATIONAL MARKET EXPANSION**

Although Canada and the United States are its most important markets, the Corporation believes its products have good potential in the Asian market and continues to develop its network of dealers and sales representatives in that area. It has already had some sales successes in Asia and has several excellent prospects for significant future sales in that market.

Recently the Corporation was relieved of any geographic restrictions in its marketing activities that had been part of the February 28th, 2000 patent purchase agreement. As a result Visionwall now intends to start marketing its products in parts of Europe in the near future. The Swiss company that previously owned the patents no longer has the right to enter the United States market after December 31, 2001.

## **GOING FORWARD**

The Corporation has greatly enhanced its operations since it restructured over two years ago and has made excellent progress in positioning itself in the market place. Its exceptional gross margin performance is a reflection of its well managed operations. The Corporation's stronger financial position together with the positive changes made to its organization and operations has positioned the Corporation extremely well for the future.



**VISIONWALL IS  
POSITIONED FOR  
EXCEPTIONAL  
GROWTH**

Visionwall offers a superior proprietary technology to a multibillion dollar marketplace that needs the energy efficient solutions Visionwall can provide. Growing concern for the environment and for energy costs will continue to push this market toward Visionwall's products.

Visionwall's growth opportunity is driven by the inevitable change now occurring in commercial building construction. A new paradigm in building science is taking hold based on the use of highly energy efficient windows which allow much smaller and less costly heating and cooling systems. This results in very energy efficient, environmentally friendly buildings that cost less to heat and cool, that are more comfortable and actually cost less to construct because of the savings in the required heating and cooling equipment. As key decision makers around the world gain a better understanding of the compelling arguments for constructing buildings using highly energy efficient windows and curtain walls, it will eventually become common practice to do so. With its superior technology, proven in hundreds of successful projects, Visionwall is leading the move toward this new way to design and construct buildings.

As a result of its market and product development strategy, and with the success of its restructuring, Visionwall is positioned for exceptional growth over the coming years. The Corporation is in the rare and enviable position of having the best technology to make possible this new, and extremely important, paradigm in one of the world's largest markets. As this new paradigm continues to take hold, the demand for Visionwall's products will soar.

The future for Visionwall has never been so exciting.

Gregory L. Clarahan  
President and C.E.O.

May 9, 2002

# Description of Business

## THE VISION

**O**ne of the most disturbing and compelling issues faced by our political, scientific, and industry leaders today is the continuing and cumulative damage mankind is heaping on the environment. Much of the world's scientific community is convinced that mankind's activities, if left unabated, will have grave consequences for our planet. Many are deeply concerned about global climate change and ozone depletion, to name just two very serious issues. The rapid industrialization of the lesser developed nations of the world is causing a geometric growth in these environmental problems. Few in the scientific community believe the planet can support an industrialized globe without major changes to the wasteful ways currently entrenched in the western industrialized nations. Many of these environmental problems are directly related to the consumption of fossil fuels to satisfy mankind's voracious demand for energy.

Visionwall wants nothing less than to provide at least part of the solution to these growing global environmental problems which many believe will reach crisis proportions over the coming years. Visionwall's energy efficient windows and curtain walls dramatically reduce the energy requirements of modern buildings and therefore have the potential to radically alter the course of energy usage patterns in both industrialized and developing nations. This in turn has the potential to radically alter the electric power generation requirements and all the associated infrastructure necessary to supply power to these energy efficient buildings. The impact on lesser developed nations in the process of industrialization could be profound.

Consider that each year an energy equivalent of nearly 660,000,000 barrels of oil escapes through the windows of buildings in Canada and the United States alone. Visionwall's energy efficient window products could save annually the equivalent of 440,000,000 of those barrels of oil. The widespread use of Visionwall's products would have a staggering beneficial impact on the planet.

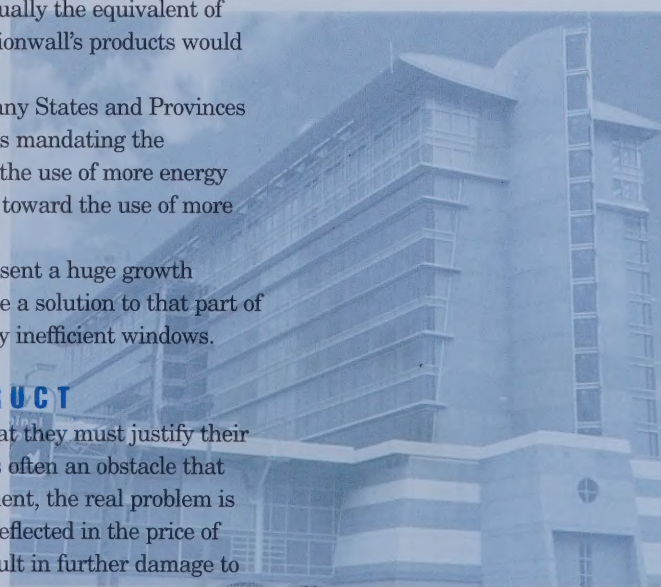
In response to the growing environmental concerns, many States and Provinces have adopted, or are in the process of adopting, building codes mandating the construction of more energy efficient buildings and, in effect, the use of more energy efficient windows. This is part of a growing world wide trend toward the use of more energy efficient building products.

These macro scale considerations and global trends present a huge growth opportunity for Visionwall as it pursues its strategy to provide a solution to that part of the global environmental problem caused by the use of energy inefficient windows.

## BUILDINGS COST LESS TO CONSTRUCT

One difficulty for most energy saving technologies is that they must justify their high initial cost with future uncertain energy savings. This is often an obstacle that cannot be overcome. For those concerned about our environment, the real problem is that the ultimate cost to our environment is not adequately reflected in the price of energy, which frequently leads to economic decisions that result in further damage to

Fairmont Vancouver Hotel  
Vancouver, British Columbia



**VISIONWALL  
WINDOWS CAN  
ACHIEVE  
INSULATING  
VALUES UP TO  
FOUR TIMES  
GREATER THAN  
REGULAR  
DOUBLE PANE  
WINDOWS**

Palais des Congrès  
Montréal, Québec

the environment. Visionwall's technology, in most cases, does not have this difficulty. Buildings properly designed using Visionwall's products will realize a significant saving in the cost of the equipment required to heat and cool the building. Because of these savings, as has been practically demonstrated in many actual buildings, the total initial **construction cost can be reduced** by using VISIONWALL®. The long term energy savings become a bonus to the building owner. The end result is a building that can cost less to construct, provides a much more comfortable interior space, costs much less to operate over its life and contributes to the solution of our global environmental problems.

There is a growing awareness by progressive building designers that it is senseless to design buildings that cost more to construct, that are energy inefficient and therefore cost more to operate, and that have less comfortable interior spaces. In the near future, all good building design will focus on the optimal energy efficiency of its building envelope in order to reduce initial construction costs and long term energy costs. Using Visionwall's products or similar technologies to achieve these obviously desirable results will become as common as is the use today of insulation in standard wall construction.

In the near future it will be considered irresponsible to construct buildings that use large, complex and expensive heating and cooling equipment with huge energy requirements to overcome the inefficiency of windows in order to achieve an acceptable level of interior space comfort.

### **TREMENDOUS LONG-TERM ENERGY SAVINGS**

VISIONWALL® windows can achieve insulating values up to four times greater than regular double pane windows. In fact, commercial buildings using VISIONWALL®, in many cases, can have thermal losses so small that they can be fully compensated with heat released by occupants, lighting and solar radiation from the outdoors. During occupied hours commercial buildings using VISIONWALL® do not require heating even in extremely cold conditions (other than to heat the required outside air for ventilation). In hot climates, VISIONWALL® can significantly reduce the cost to cool a building.

### **HIGHEST QUALITY PRODUCTS**

Not only does Visionwall manufacture the most advanced products in terms of their energy efficiency, it is one of the relatively few companies experienced in engineering and manufacturing "pre-glazed" curtain wall panels which reduce installation time and cost while ensuring a much higher quality product because of the greater control achieved in a factory compared to the assembly of products on a construction site. Visionwall also prides itself as an industry leader in providing pressure equalized curtain walls and windows, and designs all its products to incorporate "rain screen principles", the hallmark of technically advanced, high-quality curtain wall and window design.

## CAPABLE, MOTIVATED AND DEDICATED PEOPLE

Visionwall has an experienced and highly motivated management team with a proven track record of success in this industry. No other company can match Visionwall's technical expertise as it relates to the engineering, manufacturing and installation of energy efficient windows and curtain walls and the impact of these products on the buildings using them. Visionwall's Vice President of Engineering and his senior staff members bring a combined experience of nearly 100 years to the company, much of which in designing some of the most complex curtain walls on the largest buildings. The company's Vice President of Manufacturing heads a team bringing similarly seasoned management to Visionwall's manufacturing department. Visionwall's project, installation and estimating managers also have extensive experience on some of the most challenging building projects.

This management capability in the window and curtain wall industry is uniquely complimented by the talents of Visionwall's Senior Vice President Sales and Marketing, an experienced professional mechanical engineer, and of its accomplished technical sales professionals. Visionwall's sales and marketing management understand building thermal dynamics and the impact an energy efficient building envelope has on building design and cost. This technical knowledge is crucial in convincing and assisting designers to take full advantage of the benefits of using VISIONWALL®.

The technical prowess of Visionwall is supported and assisted by an accomplished financial and administration management to help ensure a sharp business focus is maintained. The business objectives are made clear, the responsibilities defined, and each individual in the organization is given credit for the success, or held accountable for the failure, in meeting their respective objectives.

Visionwall has more than 100 employees throughout its operation. Without these many talented and hard working people it simply could not achieve its goals. Visionwall is proud to have such a capable and dedicated organization.

**VISIONWALL  
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DEDICATED  
ORGANIZATION**

## GROWING SALES NETWORK

The Canadian sales office is located in Edmonton, Alberta. The United States sales office is located in Salt Lake City, Utah. An ambitious distribution development program has resulted in more than thirty commissioned sales representatives and dealers selling VISIONWALL® products throughout the United States and Canada. Visionwall's sales network includes some of the best architectural products sales organizations in North America which allows Visionwall to lever its market position on the well established relationships of its dealers in specific geographic areas. Visionwall has initiated an effort to establish a similar sales network in East Asia.

Volkswagen Marketplace  
North American Program

## FRAGMENTED INDUSTRY

Visionwall is relentlessly pursuing its business strategy within an industry that can be described as fragmented. The commercial window and curtain wall industry in the United States and Canada is made up of a complex web of many companies with extreme variations in size, capabilities, motivations and relationships with each other. Most of the industry is made up of relatively small and technically limited companies active in their respective geographic market. These glazing contractors purchase glass

units from the major glass manufacturing companies and usually purchase aluminum extrusions from a small number of large aluminum companies that design, market, and extrude aluminum window and curtain wall frame systems. Some of the large aluminum companies have established dealer relationships with certain glazing contractors, but for large projects they may still directly supply windows and curtain walls to end users.

A number of glazing contractors are substantial in size and are capable of custom engineering, manufacturing, and installing complex monumental curtain walls and commonly execute large commercial window contracts. Although these glazing contractors purchase the glass, the framing systems are of their own design which are extruded for them by the large aluminum companies.

In general, the industry responds to tender calls. They supply whatever products are specified by the architect. The lowest bidder wins the contract. The framing systems are supplied by one company, the glass units are supplied by a different company, and yet a third company often has the responsibility to assemble and install the finished product. No one company really has a fully integrated view and control over the final product. Because of this fragmentation, the commercial window and curtain wall industry has been slow to respond to the need for improved energy efficiency.

Because Visionwall supplies both the glass unit and the framing system and takes responsibility for both components, it has a totally integrated view of the end product. Having such a view is critical because the energy efficiency of the framing systems is just as important as the glass units in achieving the desired overall thermal performance. This enables Visionwall to adopt innovative technical solutions within its products. This integrated view of the end product, combined with an integrated view and understanding of the impact of its products on the buildings using them, gives Visionwall a powerful advantage over its competitors, the vast majority of which simply do not have the capability to compete on an overall technical basis with Visionwall.

S-Project  
Seoul, Korea

## EXPANDING MARKET

During the building construction boom years prior to the recession that started in 1990, the industry was generally quite profitable and enjoyed good margins and steady growth. Starting in 1990 North America experienced the worst downturn in the construction and building products market during the postwar period. As a result the industry went through a period of extremely low sales volumes and weak margins. Most companies incurred severe losses. Many went bankrupt or voluntarily exited the market. The North American non-residential construction market has been expanding since 1994. In particular office building vacancy rates have been declining in many of North America's major cities. This has resulted in increased construction of large office buildings which has generated greater demand for monumental curtain walls and commercial windows. Although the construction market slowed in the United States following the September 11th, 2001 attacks, it has been gaining strength over the past few months. The non-residential construction market is generally expected to continue its expansion over the coming years.

## COMPETITIVE POSITION

Because Visionwall is selling a new building concept and not just another window product, the basis for competing with existing conventional window suppliers is quite different from what one would normally expect. Ideally VISIONWALL® is sold in advance to building owners, developers and architects during the initial design stages. Otherwise the advantages of a reduced heating and cooling system, etc., will be lost. It is important to recognize that if Visionwall is successful in influencing the owner's and architect's building concept during the early design stages, then Visionwall is left with a limited amount of competition. This is because the new building concept will depend on the use of a window with performance characteristics similar to VISIONWALL®. This is a position Visionwall's sales organization continually strives for and has successfully achieved on many occasions.

Visionwall can achieve an overall insulating value for both the frame and glass of about R7. In recent years other companies have begun to make available inert gas filled glazing units. Filling a double pane sealed glazing unit that incorporates a low-E coat with a low conductive inert gas can result in a "centre of glass" insulating value of about R4 and an overall insulating value of about R2.5 when the sealed glazing unit is set in a typical thermally broken aluminum frame normally used in commercial applications.

A triple pane sealed glazing unit that incorporates two low-E coats with a low conductive gas (such as argon) would result in a "centre of glass" insulating value of about R7 and an overall insulating value of about R3.5 when the sealed glazing unit is set in a typical thermally broken aluminum frame. When these units are set in a thermally upgraded and more costly frame they can achieve similar performance to VISIONWALL®. There are significant disadvantages to these triple pane units including their 50% extra weight; the high risk of performance loss due to the loss of argon gas immediately or over time; and their short life expectancy due to the multiple structural stress factors they must endure. In addition Visionwall believes that their high cost and relatively short life make these units uneconomic on a proper life cycle cost basis. VISIONWALL® does not use argon and has about three times the life expectancy of these units.

One major problem for the manufacturers of gas filled insulating glass units is that a high argon fill level is difficult to achieve. In addition, tiny flaws in an insulating glass unit's edge seal can result in a rapid loss of the argon. Fill levels are difficult to measure therefore it is hard to know if the argon is actually present. Argon testing under the Insulating Glass Manufacturers Association of Canada certification program has been performed since 1997. Their data shows an average "pass rate" of less than 40% for units tested in the years 1997 to 2001. On average more than 60% of tested units did not meet the required minimum for a 90% argon fill level.

Another problem with gas filled glass units is that the argon escapes over time reducing thermal performance. All insulating glass unit edge seals are somewhat permeable to gases. Different gases have different permeation rates. Argon permeates out through most glass unit seals two to three times faster than air permeates seals back into the unit. The escaping argon causes a sealed glass unit to decompress over time. The resulting negative pressure adds stress to the edge seal reducing its life and in fact can cause the glass to break. This is the accepted explanation for the reported

**THE  
CORPORATION  
IS IN AN  
EXCELLENT  
COMPETITIVE  
POSITION**

phenomenon of random, apparently spontaneous implosion of argon gas filled low-E insulating glass units. See: "*Kaboom! There Goes Another Argon Filled IG Unit*", U.S.Glass magazine ([www.usglassmag.com/backissues](http://www.usglassmag.com/backissues)), Volume 34, Number 4, April 1999.

In response to the increasing demand for more energy efficient curtain walls, one of the world's largest curtain wall companies has begun marketing a "double wall" system that can also achieve performance values similar to VISIONWALL®. This type of system, if designed properly, is very expensive. It would appear to be about 30% to 50% more expensive than VISIONWALL® and has no technical advantages.

As competing systems are made more available, the market will likely accelerate its move toward the use of energy efficient building envelopes. The Corporation is in an excellent competitive position because it clearly has the superior technology which is cost competitive with the other products.

### GROWTH OPPORTUNITY

Management estimates the North American market for non-residential windows and curtain walls to be in excess of \$10 billion annually and the global market to be at least \$30 billion annually. Visionwall is well-positioned to realize exceptional growth into this very large market. Explosive growth is possible because of the number of large contracts potentially available. One curtain wall contract can be as large as \$30 million. Annual sales revenues in excess of \$100 million have been achieved by other curtain wall companies which do not have the technological advantages of Visionwall.

Malaspina College  
Arts and Science Building  
Nanaimo, British Columbia



# Management's Discussion and Analysis

**T**he Corporation achieved profitable operations in the previous fiscal year ended January 31, 2001 after successfully completing a complex restructuring plan that was initiated in late February 2000. The restructuring became necessary after the events of fiscal 1999 and fiscal 2000. The restructuring and the events leading up to the restructuring are fully explained in the annual reports for the fiscal years ended January 31, 2001 and January 31, 2000.

During the eleven months ended December 31, 2001, the Corporation continued to achieve exceptional gross margin performance and kept its overhead costs in line with its planning, however, it did not achieve a sufficient sales volume for its operations to be profitable. Visionwall incurred a \$496,642 loss for the eleven months. This includes \$329,822 for the amortization of capital assets, therefore the loss only consumed \$166,820 of the Corporation's working capital. This loss is small in relation to the Corporation's nearly \$9 million in total assets and has had no significant impact on the Corporation's liquidity.

Presently there is a high level of interest in the Corporation's energy efficient window and curtain wall products as the market continues to move toward energy efficient building design. This market trend has been strengthened by 2000/2001's energy shortages and high energy costs, as well as by the increase in the number of jurisdictions enforcing building energy codes. Although the construction market slowed in the United States following the September 11th, 2001 attacks, it has been gaining strength over the past few months and is expected to continue growing stronger during the remainder of this year. The Corporation remains optimistic that overall the market conditions will remain generally favourable for companies such as Visionwall that are capable of executing large complex curtain wall contracts. The Corporation is being given serious consideration on a number of substantial contracts for projects being constructed in various parts of the United States, Canada, and Asia.

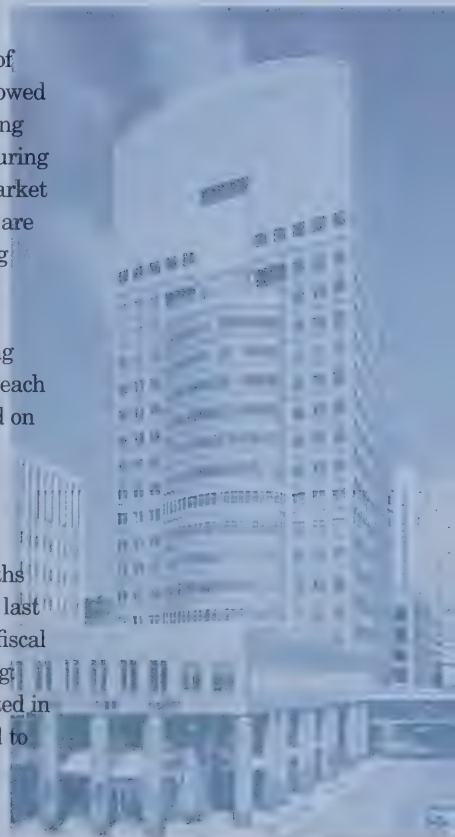
On October 30, 2001 the Corporation consolidated the issued and outstanding Class A Shares and Class B Shares on the basis of one post-consolidated share for each ten pre-consolidated shares. The Corporation also changed its financial year to end on December 31st. This has resulted in an initial eleven month reporting period that ended December 31st, 2001.

## CONTRACT REVENUE

The Corporation earned contract revenue of \$11.2 million during eleven months ended December 31, 2001 compared to \$13.1 million during the prior fiscal year. In last year's annual report the Corporation projected sales revenue of \$18 million for the fiscal year just ended. The Corporation fell short of this projection because of the following:

1. The change in the Corporation's financial year to end on December 31st resulted in an eleven month fiscal period. This eliminated the revenue that was projected to be earned in January 2002. Considering January was expected to be a strong production month, this would explain a \$2 million reduction in the projected revenue.

EMC Insurance Tower  
Des Moines, Iowa

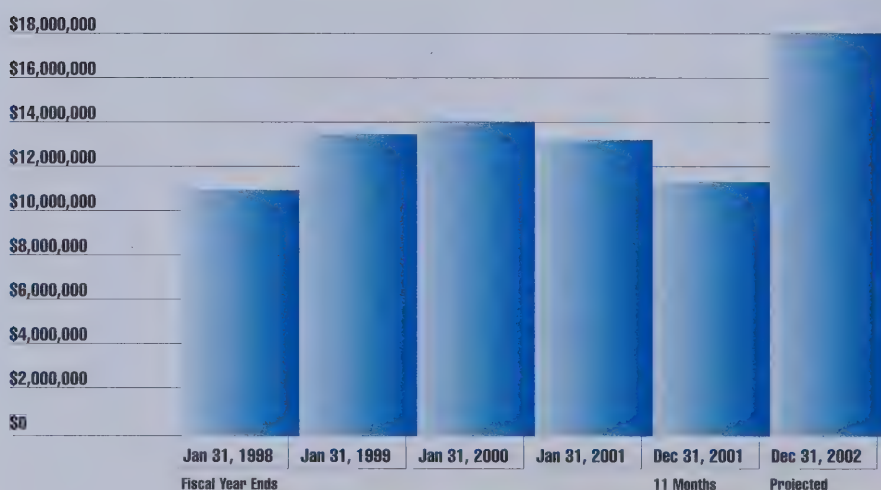


2. For the first time in the Corporation's history a significant contract was cancelled which had the effect of reducing earned revenue for the year by about \$800,000. Although Visionwall had met all its contractual commitments to the glazing contractor on the job, a dispute erupted between the general contractor and the glazing contractor which resulted in the glazing contractor's contract being cancelled.
3. A \$6.5 million contract to supply the windows and curtain wall for a convention centre being constructed in Montreal was in process last year and was fully expected to be nearly complete before December 31, 2001. Although Visionwall has had stellar performance with respect to its contract, the overall project has fallen behind schedule. The delay reduced Visionwall's earned revenue for the period by approximately \$1.5 million from what was projected.
4. Unfortunately the tragic events in the United States on September 11th, 2001 disrupted and delayed the decisions on the construction of many building projects in North America. As a result the flow of orders during the last part of 2001 and early 2002 was less than projected. This weakened Visionwall's earned revenue during that period. In particular the volume of automobile showrooms that were produced during the last part of the year was less than anticipated.

The restructuring that occurred over two years ago understandably had a negative impact on the Corporation's position in the market place. This fact has slowed the pace of new contract awards from what would have otherwise occurred. The Corporation's successful operations since that time, however, have already gone a long way to overcome this. As time passes, the negative impact of the restructuring will continue to diminish.

The Corporation projects its sales revenue to grow to about \$18 million in 2002 and anticipates 50% annual growth thereafter.

## VISIONWALL INCORPORATED REVENUE HISTORY



## GROSS MARGINS

The Corporation continued to achieve excellent performance on the contracts it executed. With very few exceptions it has achieved good cost control and on time deliveries of its products over the past two years. The Corporation earned a gross margin of \$3,364,862 or 30.1% of contract revenue during the eleven months ended December 31, 2001 compared to a gross margin of \$3,446,397 or 26.4% of contract revenue during the previous fiscal year. This exceptional gross margin performance in part reflects the positive changes made to Visionwall's organization and operations since the restructuring.

## GENERAL, SELLING & ADMINISTRATIVE EXPENSES

The Corporation's operating expenses were consistent with its planning and reflect the enhanced infrastructure developed over the past year to ensure it is able to operate at the anticipated higher sales volumes. The general, selling and administrative expenses increased to \$3,665,285 in the eleven months ended December 31, 2001 compared to \$3,216,166 the previous year. The expenses during the previous fiscal year reflect only eleven months of operations after the restructuring, and a stripped down operation that existed for the first part of that year.

The Corporation's break even point is now about \$16 million in annual contract revenue. Visionwall will generate a positive cash flow from its operations at about \$14 million in sales. These overhead costs are relatively fixed and will only increase modestly with large increases in revenue. With its current market position, the Corporation expects to easily exceed this sales volume. As sales grow beyond its break even point, the Corporation expects to become highly profitable.

Gateway Station  
Surrey, British Columbia

## INTEREST EXPENSE

Interest expense on long-term debt increased to \$303,596 during the eleven months ended December 31st, 2001 compared to \$162,610 the previous year. This is consistent with the issue of the 15% Debentures during the period.

## OTHER INCOME

The Corporation estimates it will receive \$250,000 from an insurance claim for losses resulting from a two week interruption in part of its operations due to an equipment breakdown. An initial payment of approximately \$109,000 was received on this claim. The balance of the claim by the Corporation is subject to further negotiation and discussion with the insurance company, the results of which are uncertain. Therefore only the amount actually collected during the period has been recorded as "Other income" on the financial statements.

## GAIN ON INSOLVENCY OF SUBSIDIARY

During the year ended January 31, 2000 a loss was recorded that represented the Corporation's write-down in its investment in Visionwall Technologies Inc., a wholly owned subsidiary, to a nominal amount as a result of the subsidiary's insolvency, and the assumption of obligations of Visionwall Technologies Inc. that were guaranteed by the Corporation. The gain for the year ended January 31, 2001 represents a recovery of the loss that was recorded in fiscal 2000. The gain related to the equipment pledged as collateral to the debenture holders less the assumption of additional liabilities of Visionwall Technologies Inc. necessary to enable the Corporation to carry on the business

operations and less certain transaction and transition expenses incurred related to the acquiring of the assets and business operations of Visionwall Technologies Inc.

## **SHARE ISSUE COSTS**

This charge relates to the legal, accounting, administrative and other costs incurred in connection with the issue of shares. The amount is lower during the eleven months ended December 31, 2001 due to the nature of the equity transactions completed compared to the prior year.

## **REDUCTION OF STATED CAPITAL**

During the annual general and special meeting of Visionwall's shareholders held on July 20, 2001, the shareholders approved a special resolution to reduce the stated capital of the Corporation. Accordingly the Corporation reduced its contributed surplus account \$12,360,962 and reduced its share capital account \$12,446,927. These reductions were offset by a reduction in the Corporation's deficit account by \$24,807,889.

## **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2001 the Corporation had working capital of \$2,047,673 and shareholders' equity of \$1,990,487. The Corporation was also capitalized with \$3,368,210 of long-term debt. Visionwall's capitalization includes government loans of \$1,304,128 that are without interest as well as an \$815,000 obligation to the Canada Revenue and Customs Agency which management anticipates will also be without interest. The Corporation currently has no bank debt and no bank credit facilities.

During the eleven months ended December 31st, 2001 the Corporation bolstered its liquidity by issuing \$1,570,000 of 15% Subordinated Secured Debentures. This includes \$500,000 of Debentures issued to the related party who had advanced \$433,000 in cash to the Corporation last fiscal year. The cash advance was repaid from the proceeds of the Debenture issue. The Corporation also improved its liquidity in October 2001 by raising \$500,000 in equity through the early exercise of Warrants. A company controlled by a Director of the Corporation exercised Warrants it held to purchase 416,667 Class A Shares at a subscription price of \$1.20 per share.

In total the Corporation's financing activities during the eleven months generated nearly \$1.4 million in additional cash. Of this \$540,499 was spent on capital and other assets and the balance was used for additional working capital. The cash invested in capital assets included approximately \$350,000 related to the leasehold improvements for the new offices developed in the building attached to its main manufacturing plant. In May, 2001 the Corporation's head office operations moved into the new office. Having all management and support staff in close proximity to each other and to the manufacturing operations has significantly enhanced operations.

Although the Corporation's financing activities significantly improved its liquidity, it experienced a \$605,364 reduction in working capital during the eleven months ended December 31, 2001. This is due to an increase in the current portion of long term debt. The \$1,600,000 of 9.1% Convertible Debentures mature on August 1, 2002 and therefore must now be classified as a current liability. In addition \$300,000 of the Government loans are due in 2002 and also must be classified as a current liability.

Subsequent to December 31, 2001 the Corporation received subscriptions for an additional \$430,000 of the 15% Debentures which will bring the total of these Debentures

issued to \$2 million. In addition, a company controlled by a Director of the Corporation subscribed to 600,000 Class A Shares at a subscription price of \$0.50 per share. Subject to approval by the TSX Venture Exchange, the completion of this latest private placement will provide an additional \$300,000 of working capital for the Corporation. When completed these financing activities will increase working capital to approximately \$2.7 million.

The Corporation intends to further increase its working capital to approximately \$4.3 million by refinancing its equipment. The proceeds of such a refinancing would be used to repay the \$1.6 million of 9.1% Convertible Debentures which are secured by the equipment. The Corporation is currently pursuing several options to accomplish the equipment refinancing.

The Corporation is taking other steps to further improve its liquidity including arrangements to increase the supplier credit available to it and to finance its accounts receivable through the use of "bill of exchange" credit facilities. It also expects to generate positive cash flow from its operations during 2002 which will further strengthen its financial position.

## **BUSINESS RISKS**

Visionwall's principal business risks arise from the uncertainties in connection with the ability to generate sufficient sales volumes to maintain profitable operations and to realize its target gross margin on its sales contracts. With the sales orders in hand for production during the current fiscal year and the growth in sales presently being experienced, management is confident that profitable operations will be maintained overall for the current fiscal year ending December 31, 2002.

Visionwall's business at times requires a large investment in accounts receivable, work in process, and inventories. Large swings can occur in the daily operating cash requirements. As a result the timing of the operating cash flows can be difficult to manage particularly without a bank operating line of credit to help fund accounts receivable and inventories. As the Corporation's sales volumes grow, working capital and liquidity requirements will also grow. To reduce these risks the Corporation is taking further steps to increase its working capital and to further improve its liquidity.

The Corporation must manage foreign currency exchange risk as a substantial amount of revenue is generated in U.S. dollars. The Corporation has a natural hedge within each contract as many cost components are purchased in U.S. dollars. The Corporation intends to eventually establish new credit facilities which will allow it to enter into forward foreign exchange contracts when necessary to reduce its foreign currency exchange exposure.

Visionwall's sales contracts to deliver product to countries outside of the United States and Canada generally will specify payment by irrevocable letter of credit to reduce the risk of nonpayment. When judged necessary, management insures its foreign sales contracts through the Export Development Corporation ("EDC").

The Corporation has purchased insurance from the EDC for its contracts in Canada and the United States. The EDC will pay up to 90% of the loss to the Corporation on insured contracts due to nonpayment of amounts rightfully due to the Corporation. The EDC will also pay up to 90% of the damage to the Corporation on insured contracts that are cancelled without cause. Each contract that Visionwall enters into is subject to approval for this coverage by the EDC.

# Responsibility for Financial Reporting

The accompanying consolidated financial statements of Visionwall Incorporated and all the information in this annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal controls which are designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization.

External auditors have examined the consolidated financial statements. The Auditor's Report outlines the scope of their examination and their opinion.

The Audit Committee, comprised of a majority of non-management directors, has met with management and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the Corporation's consolidated financial statements after which it recommended their approval to the Board of Directors.



Gregory L. Clarahan, B.Comm., C.A. President and C.E.O.



Randy L. Pederson, B.Comm., M.B.A., C.G.A. Vice President Finance and C.F.O.

# Auditors' Report

To the Shareholders of

**Visionwall Incorporated**

We have audited the consolidated balance sheets of **Visionwall Incorporated** as at December 31, 2001 and January 31, 2001 and the consolidated statements of income (loss) and deficit and cash flows for the eleven month period ended December 31, 2001 and the year ended January 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and January 31, 2001 and the results of its operations and its cash flows for the eleven month period ended December 31, 2001 and the year ended January 31, 2001 in accordance with Canadian generally accepted accounting principles.



Edmonton, Canada

March 15, 2002

Chartered Accountants



Visionwall Incorporated

**CONSOLIDATED BALANCE SHEETS**

[see basis of presentation - note 1]

As at

	December 31, 2001 \$	January 31, 2001 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	301,721	246,764
Accounts receivable	2,506,366	2,526,418
Unbilled contract revenue	1,413,372	647,871
Inventory	1,146,922	1,060,381
Prepaid expenses	165,731	426,131
	5,534,112	4,907,565
Capital assets [notes 1, 3, 4 and 6]	3,276,994	3,032,665
Deferred charges, net of amortization	34,029	
Investment in Visionwall Technologies Inc. [note 1]	1	1
	<u>8,845,136</u>	<u>7,940,231</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current liabilities</b>		
Accounts payable and accrued liabilities [note 12]	1,396,558	2,047,884
Current portion of long-term debt [note 4]	189,881	206,644
Current portion of government loans [note 5]	300,000	
Convertible debentures [note 6]	1,600,000	
	3,486,439	2,254,528
Long-term debt [note 4]	794,082	781,617
Government loans [note 5]	1,004,128	1,304,128
Convertible debentures [note 6]		1,600,000
Debentures [note 7]	1,570,000	
	<u>6,854,649</u>	<u>5,940,273</u>
<b>Commitments and contingencies [notes 1 and 13]</b>		
<b>Shareholders' equity</b>		
Share capital [note 8]	2,499,958	14,446,885
Contributed surplus [note 8]		12,360,962
Deficit [note 8]	(509,471)	(24,807,889)
	<u>1,990,487</u>	<u>1,999,958</u>
	<u>8,845,136</u>	<u>7,940,231</u>

See accompanying notes

*Gregory Carahan*

*[Signature]*

On Behalf of the Board: ..... Director

Director

**Visionwall Incorporated**
**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT**
*Period ended*

	December 31, 2001 \$	January 31, 2001 \$
	(11 months)	(12 months)
<b>Contract revenue</b>	<b>11,168,511</b>	<b>13,072,081</b>
Contract costs <i>[note 3]</i>	7,803,649	9,625,684
<b>Gross margin on contracts</b>	<b>3,364,862</b>	<b>3,446,397</b>
<b>General, selling and administrative expenses <i>[note 3]</i></b>	<b>3,665,285</b>	<b>3,216,166</b>
Interest on long-term debt	303,596	162,610
Other interest expense	2,246	13,642
Other income	(109,623)	
	<b>3,861,504</b>	<b>3,392,418</b>
<b>Income (loss) before the undernoted</b>	<b>(496,642)</b>	<b>53,979</b>
Gain on insolvency of subsidiary <i>[note 1]</i>		687,857
<b>Income (loss) before income taxes</b>	<b>(496,642)</b>	<b>741,836</b>
Income taxes <i>[note 11]</i>		
Net income (loss) for the period	(496,642)	741,836
Deficit, beginning of period	(24,807,889)	(25,480,374)
Share issue costs <i>[notes 8 and 11]</i>	(12,829)	(69,351)
Reduction of stated capital <i>[notes 8]</i>	24,807,889	
<b>Deficit, end of period</b>	<b>(509,471)</b>	<b>(24,807,889)</b>
<b>Earnings (loss) per share</b>	<b>(0.05)</b>	<b>0.10</b>
<i>See accompanying notes</i>		

**Visionwall Incorporated**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*Period ended*

	December 31, 2001 \$ (11 months)	January 31, 2001 \$ (12 months)
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	(496,642)	741,836
Non-cash items:		
Amortization [note 3]	329,822	208,223
Non-cash gain on insolvency of subsidiary [note 1]		(1,600,000)
	(166,820)	(649,941)
Changes in non-cash working capital balances	(619,916)	(3,114,316)
<b>Cash used in operating activities</b>	<b>(786,736)</b>	<b>(3,764,257)</b>

**INVESTING ACTIVITIES**

Purchase of patents and trademarks		(120,000)
Purchase of capital assets	(506,470)	(460,446)
Deferred charges	(34,029)	
<b>Cash used in investing activities</b>	<b>(540,499)</b>	<b>(580,446)</b>

**FINANCING ACTIVITIES**

Issue of debentures	1,400,000	
Issue of shares [note 8]	500,000	4,300,000
Advance from related party [note 12]		433,000
Repayment of advance from related party [note 12]	(433,000)	
Repayments of long-term debt	(71,979)	(72,182)
Share issue costs	(12,829)	(69,351)
<b>Cash provided by financing activities</b>	<b>1,382,192</b>	<b>4,591,467</b>
<b>Net increase in cash during the period</b>	<b>54,957</b>	<b>246,764</b>
Cash, beginning of period	246,764	Nil
<b>Cash, end of period</b>	<b>301,721</b>	<b>246,764</b>

**Additional disclosures with respect to the Statement of Cash Flows:**

	2001 \$	2001 \$
Interest paid	253,993	143,567
<i>See accompanying notes</i>		

## Visionwall Incorporated

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

### 1. BASIS OF PRESENTATION

Visionwall Incorporated is a publicly traded corporation which, through a wholly-owned subsidiary, Visionwall Corporation, custom engineers and manufactures high performance windows and curtain wall systems primarily for use in commercial, institutional and industrial buildings, using proprietary technology. These products are marketed throughout Canada, the United States and other geographic areas of the world. The subsidiary enters into construction contracts to supply and in some cases install VISIONWALL® window and curtain wall systems. VISIONWALL® is a registered trademark owned by Visionwall Corporation.

Prior to February 24, 2000, the Corporation carried on these business operations through Visionwall Technologies Inc., a wholly owned subsidiary of Visionwall Corporation. On February 24, 2000, the Court of Queen's Bench of Alberta appointed a Receiver-Manager to liquidate the assets of Visionwall Technologies Inc. for the benefit of all creditors, including the holders of the \$1.6 million of convertible debentures (see note 6) issued by Visionwall Incorporated. The debenture holders had a priority claim on most of Visionwall Technologies Inc.'s equipment. On March 3, 2000, Visionwall Technologies Inc. was voluntarily assigned into bankruptcy. Visionwall Corporation hired the employees, rented the facilities and took a number of other steps which enabled it to carry on the business operations formerly conducted by Visionwall Technologies Inc.

As a result, these financial statements are prepared on the basis that the Corporation lost control over its investment in Visionwall Technologies Inc. effective January 31, 2000. A loss on the insolvency of Visionwall Technologies Inc. was estimated and recorded for the year ended January 31, 2000 in the amount of \$3,567,702. A component of this loss was the carrying value of certain equipment owned by Visionwall Technologies Inc. that was pledged as collateral for the convertible debentures issued by Visionwall Incorporated. During the year ended January 31, 2001, Visionwall Corporation purchased the equipment and certain other assets of Visionwall Technologies Inc. To facilitate this purchase, the debenture holders agreed to allow the equipment pledged as collateral to be sold to Visionwall Corporation, and to waive all prior events of default and return Visionwall Incorporated to good standing under the trust indenture. Accordingly, Visionwall Incorporated recorded a recovery of the insolvency loss recorded in 2000 equal to the \$1,600,000 of convertible debentures outstanding. This amount was added to the cost of equipment acquired by Visionwall Corporation in the year ended January 31, 2001.

To enable the Corporation to carry on the business operations formerly conducted by Visionwall Technologies Inc., the Corporation assumed certain liabilities of Visionwall Technologies Inc. in addition to those that it had guaranteed. These liabilities included: i) employee compensation owing to employees of Visionwall Technologies Inc.; ii) costs to maintain goodwill with dealers and customers resulting from the failure of Visionwall Technologies Inc. to satisfy contractual obligations prior to its bankruptcy; and iii) costs related to Visionwall Technologies Inc. that had to be accepted in order to obtain specific services and materials from certain suppliers. The Corporation also incurred certain transaction and transition expenses related to acquiring the assets and business operations of Visionwall Technologies Inc.

Since the actual loss on the insolvency of Visionwall Technologies Inc. was uncertain for the year ended January 31, 2000, the statement of income for the year ended January 31, 2001 reflects the recovery of \$687,857 of the insolvency loss recorded in 2000 as follows:

	\$
Recovery of loss related to equipment pledged as collateral to debenture holders	1,600,000
Assumption of additional liabilities of Visionwall Technologies Inc.	(688,330)
Transaction and transition expenses incurred	(223,813)
	<u>687,857</u>

These financial statements have been prepared in accordance with generally accepted accounting principles on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of operations for the foreseeable future. Prior to the restructuring of the Corporation's operations in the fiscal year ended January 31, 2001, the Corporation had incurred significant operating losses, had a working capital deficiency and a shareholders' deficiency. At December 31, 2001, the Corporation has working capital of \$2,047,673, shareholders' equity of \$1,990,487 and for the eleven month period ended December 31, 2001 realized a net loss of \$496,642.

The Corporation's ability to continue operations is uncertain and is dependent upon its ability to operate on a profitable basis, failing which, to secure additional financing. These financial statements do not reflect any adjustments to the classification and carrying values of assets and liabilities which may be necessary should the Corporation no longer be able to continue operations as a going concern.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Because the precise determination of many assets and liabilities is dependent upon future events, preparation of financial statements for a period necessarily involves the use of estimates and approximations, particularly when accounting for contracts using the percentage of completion method of recording revenue. The financial statements have, in management's judgement, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

### Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Visionwall Corporation.

### Inventory

Raw materials inventory is valued at the lower of average cost and replacement cost. Finished goods inventory is valued at the lower of specific item cost and net realizable value.

### Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided over the assets estimated useful lives on the following basis:

Manufacturing equipment	Unit of production method
Installation equipment	20% declining balance
Office equipment, furniture and fixtures	20% declining balance
Computer equipment and software	30% declining balance
Automobiles	30% declining balance
Leasehold costs	Straight-line over term of lease
Patents	Straight-line over 10 years
Trademarks	Straight-line over 20 years

### Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Other assets, liabilities, revenues and expenses denominated in foreign currencies are translated at exchange rates prevailing at the transaction date. Gains or losses resulting from translation of foreign currency are included in income.

### Accounting for contracts

Revenue from contracts in progress is accounted for using the percentage of completion method. Provision is made for all anticipated contract losses as soon as they become evident. Unbilled contract revenue represents revenue earned in excess of amounts billed on uncompleted contracts. When amounts are billed in advance of revenue earned on uncompleted contracts, the amounts are shown as billings in excess of contract revenue.

### **Leases**

Leases are classified as either capital or operating. Leases, which transfer substantially all of the benefits and risks of ownership of property to the Corporation, are accounted for as capital leases. The capitalized lease obligation reflects the present value of future rental payments, discounted at the appropriate interest rates. The amount capitalized as the cost of the asset is amortized as set out above under capital assets. Rental payments under operating leases are expensed as incurred.

### **Income taxes**

The Corporation follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

### **Stock-based compensation plans**

The Corporation has a stock-based compensation plan, which is described in note 8. No compensation expense is recognized on this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

### **Earnings (loss) per share**

Earnings (loss) per share is calculated based on the weighted average number of Class A Shares and Class B Shares outstanding during the year (December 31, 2001 – 10,162,551; January 31, 2001 – 7,606,046).

The potential number of Class A shares issuable under the convertible debentures (note 6) and share purchase options (note 8) are not dilutive.

### 3. CAPITAL ASSETS

	December 31, 2001		January 31, 2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Manufacturing equipment	2,471,729	304,048	2,373,223	140,886
Installation equipment	76,879	21,082	75,646	7,071
Office equipment, furniture and fixtures	179,906	26,647	53,887	5,327
Computer equipment and software	252,235	92,485	210,361	28,685
Automobiles	38,817	15,272	35,317	5,298
Leasehold costs	675,473	58,595	372,455	11,123
Patents	100,000	18,333	100,000	9,167
Trademarks	20,000	1,583	20,000	667
	3,815,039	538,045	3,240,889	208,224
<b>Net book value</b>		<b>3,276,994</b>		<b>3,032,665</b>

Capital assets include assets acquired under capital leases with net book values at December 31, 2001 as follows: manufacturing equipment of \$155,600 (January 31, 2001 - \$207,504) and office equipment of \$125,813 (January 31, 2001 - \$85,900). Amortization of capital assets totaling \$329,822 (January 31, 2001 - \$208,223) is included in contract costs and general, selling and administrative expenses.

### 4. LONG-TERM DEBT

	December 31, 2001	January 31, 2001
	\$	\$
Obligations under capital leases (interest rates 9.70% - 15.0%)	168,963	173,261
Canada Customs and Revenue Agency	815,000	815,000
Long-term debt	983,963	988,261
Less: current portion	189,881	206,644
	<b>794,082</b>	<b>781,617</b>

To enable the Corporation to carry on the business operations formerly conducted by Visionwall Technologies Inc., the Corporation agreed to assume certain liabilities of Visionwall Technologies Inc. to the Canada Customs and Revenue Agency (the "CCRA"). The amount of this liability, estimated to be \$815,000, is subject to further negotiation and agreement with the CCRA. Given that the balance is still subject to further negotiation, it is reasonably possible that the obligation to the CCRA could change by a material amount in the near future.

Under the terms of a preliminary agreement with CCRA the balance owing is to be paid over a five year period once the liability is agreed to by the parties. The commencement date for payments has not been finalized but, based on preliminary negotiations with CCRA, management anticipates payments to commence May 31, 2002.

Interest terms on the obligation have not yet been finalized but, based on preliminary negotiations with CCRA, management anticipates that no interest will be charged on approximately \$704,000 of the obligation and the remaining \$111,000 will bear interest at CCRA's prescribed interest rate (December 31, 2001 - 9%; January 31, 2001 - 10%).

Approximately \$400,000 of the balance owing to the CCRA is collateralized by a priority claim over the Corporation's equipment. The CCRA will maintain a secured interest in the equipment in priority to any other secured parties until the priority claim has been paid.

The future minimum lease payments on capital leases are due over the next five fiscal years as follows:

	\$
2002	91,980
2003	34,936
2004	31,723
2005	18,698
2006	14,596
Thereafter	10,947
<b>Total minimum lease payments</b>	<b>202,880</b>
<b>Less: amount representing interest</b>	<b>33,917</b>
<b>Present value of minimum lease payments</b>	<b>168,963</b>

Aggregate principal payments required on the obligation to Canada Customs and Revenue Agency over the next five fiscal years are as follows:

	\$
2002	108,667
2003	163,000
2004	163,000
2005	163,000
2006	163,000
Thereafter	54,333
	<b>815,000</b>

## 5. GOVERNMENT LOANS

The Corporation has \$1,304,128 in non-interest bearing, unsecured loans with the Federal Department of Western Economic Diversification. The loans are non-interest bearing with the principal repayable in four quarterly payments of \$150,000 commencing September 1, 2002, a payment of \$129,128 on September 1, 2003, a payment of \$150,000 on December 1, 2003 and a final payment of \$425,000 on March 1, 2004.

Aggregate principal repayments on the government loans are due over the next three fiscal years as follows:

	\$
2002	300,000
2003	579,128
2004	425,000
	<b>1,304,128</b>

## 6. CONVERTIBLE DEBENTURES

The Corporation has issued convertible debentures with a face value of \$1,600,000 with interest at 9.1% on the face value of the debentures compounded and payable quarterly, maturing August 1, 2002. The debentures are convertible, at the option of the debenture holder, as to principal only, in whole or in part at any time into Class A Subordinate Voting Shares at a price of \$2.00 per share. The Corporation has the right to cause the debenture holders to convert the principal amount into Class A Shares, if the closing price of the Class A shares is not less than \$16.00 for ten consecutive trading days (excluding days where there are no trades in the Class A Shares). Collateral for the debentures is a first fixed charge on equipment and a subordinated floating charge on all of the present and after acquired property of Visionwall Corporation. The Corporation has also indemnified the debenture holders for any priority claim by the Canada Customs and Revenue Agency on the equipment that Visionwall Corporation acquired from the Receiver Manager of Visionwall Technologies Inc. (see notes 1 and 4).

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## 7. DEBENTURES

During the year the Corporation issued debentures for proceeds equal to their face value of \$1,400,000 and accepted subscriptions for an additional \$170,000 of these debentures. The \$170,000 of debenture subscriptions receivable are included in accounts receivable at December 31, 2001. Subsequent to December 31, 2001 the \$170,000 was received and the debentures issued. Interest is due on the face value of the debentures at 15% per annum compounded and payable quarterly. The debentures mature August 15, 2004. Anytime after August 15th, 2002, at the option of Visionwall Incorporated, all or any portion of the debentures may be repaid upon giving the debenture holders 60 days notice.

Collateral for the debentures is a first charge under a Trust Indenture on the present and after acquired property, excluding equipment and intellectual property of Visionwall Corporation. At the option of Visionwall Incorporated the first charge will be subordinated to an operating line of credit or other credit facility that may be granted by a bank or other lender.

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## 8. SHARE CAPITAL

### Authorized

The Corporation is authorized to issue:

- a) an unlimited number of Class A Subordinate Voting Shares ("Class A Shares");
- b) an unlimited number of Class B Multiple Voting Shares ("Class B Shares"); and
- c) an unlimited number of Preference Shares in Series ("Preference Shares").

Subject to the preferred entitlements of the Preference Shares, the Class A Shares and Class B Shares participate equally, share for share without preference or distinction, in the dividends or any other distributions of the Corporation including any distribution of assets on the liquidation, dissolution or winding up of the Corporation. The holders of Class A Shares and Class B Shares are entitled to receive notice of and to attend and to be heard and to vote at all meetings of shareholders. Each holder of Class A Shares is entitled to one vote per share and each holder of Class B Shares is entitled to ten votes per share. One Class B Share is convertible into one Class A Share at the option of the holder.

Except as otherwise provided by law, the Preference Shares are not entitled to receive notice of, to attend or to vote at any meeting of the shareholders of the Corporation. The Board of Directors of the Corporation can issue Preference Shares at any time and from time to time in one or more series and determine the rights, privileges, restrictions and conditions to be attached to the shares of such series.

The authorized capital of the Corporation includes a "Coattail" provision to provide protection to the holders of the Class A Shares in the event an offer is made to purchase Class B Shares. Generally the "Coattail" provides that in the event an "Exclusionary Offer" is made to purchase Class B Shares, each Class A Share at the option of the holder will be convertible into one Class B Share. An "Exclusionary Offer" can be generally described as an offer to purchase Class B Shares of at least 20% of the then outstanding Class B Shares that is not made concurrently with an identical offer to purchase Class A Shares.

### Share consolidation

On October 30, 2001, the Corporation consolidated the issued and outstanding Class A Shares and Class B shares on the basis of one post-consolidated share for each ten pre-consolidated shares. Prior share capital information has been retroactively restated to reflect the share consolidation.

### Issued

	Number of Shares		\$
	Class A	Class B	
<b>Balance January 31, 2000</b>	5,361,185	434,014	10,146,885
Private placements	4,300,000		4,300,000
<b>Balance January 31, 2001</b>	9,661,185	434,014	14,446,885
Reduction of stated capital			(12,446,927)
Exercise of warrants	416,667		500,000
<b>Balance December 31, 2001</b>	<b>10,077,852</b>	<b>434,014</b>	<b>2,499,958</b>

The following share capital transactions occurred during fiscal year ended January 31, 2001:

- 2,300,000 Class A Shares and 2,300,000 \$1.20 Class A Warrants were issued in multiple instalments between June 23, 2000 and September 14, 2000 for gross proceeds of \$2,300,000 in a private placement; and
- 2,000,000 Class A Shares were issued in multiple instalments between October 26, 2000 and November 8, 2000 for gross proceeds of \$2,000,000 in a private placement.

The following share capital transactions occurred during the eleven months period ended December 31, 2001:

- On July 20, 2001, the Corporation's shareholders approved the reduction of the stated capital of the Corporation. The Corporation reduced its contributed surplus account by \$12,360,962, its share capital account by \$12,446,927 and its accumulated deficit by \$24,807,889; and
- 416,667 Class A shares were issued upon the exercise of 416,667 Class A share purchase warrants for cash proceeds of \$500,000.

### Share purchase options

Under the Corporation's share option plan, the Board of Directors may grant share purchase options for up to 10% of the issued and outstanding Class A Shares. At December 31, 2001 there were an additional 125,785 options (January 31, 2001 – 64,112) available for grant. At December 31, 2001 there were 882,000 options (January 31, 2001 – 902,000 post consolidated) outstanding for directors, officers, employees and consultants of the corporation. The options vest over a four year period with 25% vesting on each anniversary of the option issue date. Options not exercised within five years of the option issue date will expire.

## Share purchase warrants

Each \$1.20 Class A Subordinate Voting Share Purchase Warrant ("1.20 Class A Warrant") gives the holder the right to purchase one Class A Share for \$1.20 per share. The \$1.20 Class A Warrants expire as follows: 1,199,405 on June 23, 2002; 393,928 on July 31, 2002; 180,400 on August 28, 2002; and 109,600 on September 14, 2002.

The following schedule details the share options and warrants granted, cancelled and expired:

	Shares issuable on exercise of Stock options	Warrants	Exercise price per share \$
<b>Balance at January 31, 2000</b>	<b>226,000</b>		<b>2.00-5.50</b>
Granted	790,000	2,300,000	1.00-1.20
Cancelled	(42,000)		2.00-5.00
Expired	(72,000)		2.00-5.50
<b>Balance at January 31, 2001</b>	<b>902,000</b>	<b>2,300,000</b>	<b>1.00-5.00</b>
Granted	70,000		1.00
Cancelled	(20,000)		2.00
Expired	(70,000)		2.00
Exercised		(416,667)	1.20
<b>Balance at December 31, 2001</b>	<b>882,000</b>	<b>1,883,333</b>	<b>1.00-5.00</b>

The following schedule summarizes information relating to currently outstanding and exercisable options and warrants as at December 31, 2001:

Range of Exercise Price	Number of Shares	Outstanding	Weighted Average Exercise Price	Number of Shares	Exercisable
		Weighted Average Contractual Live (Years)			Weighted Average Exercise Price
1.00	860,000	4.04	1.00	197,500	1.00
1.20	1,883,333	0.55	1.20	1,883,333	1.20
2.00	10,000	0.08	2.00	10,000	2.00
5.00	12,000	1.04	5.00	11,500	5.00
	<b>2,765,333</b>			<b>2,102,333</b>	

## 9. FINANCIAL INSTRUMENTS

Financial instruments recognized in the balance sheets consist of cash, accounts receivable, accounts payable, long-term debt, government loans and convertible debentures.

### a) Fair values of financial assets and liabilities

The fair value of financial instruments included in the balance sheets, other than the government loans and the CCRA obligation, approximate their carrying amounts.

The estimated fair value of the CCRA obligation and the government loans at December 31, 2001 and January 31, 2001 was determined by discounting the future repayment requirements at interest rates that management believe approximate the Corporation's cost of borrowing (December 31, 2001 - 15.0%; January 31, 2001 - 15.0%).

	December 31, 2001		January 31, 2001	
	Balance Sheet Amount \$	Fair Value \$	Balance Sheet Amount \$	Fair Value \$
Government loans	1,304,128	1,034,861	1,304,128	902,685
CCRA obligation	815,000	566,071	815,000	572,441

### b) Foreign exchange

The Corporation derives a significant portion of its revenues from contracts denominated in U.S. dollars. For 2001, U.S. denominated revenues approximated U.S.\$3,606,242 (January 31, 2001 - U.S.\$3,902,000). The Corporation mitigates foreign exchange risks on these contracts through natural hedges on the purchase of materials and supplies in U.S. dollars and, from time to time, through the forward sale of U.S. dollars.

### c) Credit risk

The Corporation, as a supplier of windows and curtain wall systems, serves a number of major customers that account for a large portion of its revenues. For the eleven-month period ended December 31, 2001, one customer accounted for 41.5% of the Corporation's revenues (Year ended January 31, 2001 - 40.8% from three customers). Accounts receivable from the above significant customer at December 31, 2001 was \$456,606 (January 31, 2001 - \$656,209). In addition, a substantial portion of the Corporation's accounts receivable are from customers that operate in the construction industry for project owners that are subject to risks associated with financing such projects. The Corporation maintains allowances for credit losses considered adequate to absorb estimated credit-related losses.

## 10. SEGMENTED INFORMATION

The Corporation has determined that it manages its operations as one reportable segment of custom engineering and manufacturing of high performance window and curtain wall systems for use in commercial, institutional and industrial buildings.

Enterprise wide disclosures with respect to geographical areas and major customers is as follows:

### a) Geographical areas

	December 31, 2001 \$	January 31, 2001 \$
<b>Revenue:</b>		
Canada	5,564,000	5,752,000
U.S.A.	5,605,000	7,320,000
Asia	Nil	Nil
	<b>11,169,000</b>	<b>13,072,000</b>

All of the Corporation's capital assets are located within Canada.

### b) Major customers

Revenues are derived from significant customers. The number of customers accounting for more than 10% of revenue is as follows:

December 31, 2001		January 31, 2001	
Revenue \$	Customers (numbers)	Revenue \$	Customers (numbers)
4,630,613	1	5,319,434	3

## 11. INCOME TAXES

The Company's tax provision is determined as follows:

	December 31, 2001 \$	January 31, 2001 \$
Income (loss) before income taxes	(496,642)	741,836
Income taxes (recovery) at statutory rates	(176,903)	271,000
Effect on taxes resulting from:		
Unrecognized tax losses	171,695	307,000
Benefit of previously unrecognized tax losses		(582,000)
Other	5,208	4,000
	<b>Nil</b>	<b>Nil</b>

Future income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect of the significant components of the Corporation's future tax assets and liabilities are as follows:

	December 31, 2001 \$	January 31, 2001 \$
<b>Future tax assets</b>		
Capital assets	185,000	80,200
Share issue costs		1,800
Intangible assets	5,000	
Non-capital loss carryforwards	307,000	
	497,000	82,000
<b>Future tax liabilities</b>		
Uncompleted contracts	497,000	82,000
	497,000	82,000
<b>Net future income taxes</b>	Nil	Nil

The Corporation and its subsidiary have accumulated non-capital losses for tax purposes of approximately \$2,432,000, which may be carried forward and used to reduce taxable income in future years. Pending the conclusion of the bankruptcy of Visionwall Technologies Inc. (see note 1), Visionwall Corporation may be entitled to approximately \$21 million in net capital losses. These capital losses could be carried forward indefinitely and used to reduce taxable capital gains in future years. The income tax benefit associated with these potential net capital losses has not been recognized for accounting purposes. Non-capital losses of approximately \$862,000 have been recognized to offset net future tax liabilities otherwise payable. Non-capital losses of approximately \$507,000 have not been recognized for accounting purposes.

The non-capital tax losses available for carryforward must be claimed in years ending no later than:

	\$
2003	133,000
2004	
2005	14,000
2006	34,000
2007	882,000
2008	1,369,000
	2,432,000

## 12. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities at January 31, 2001 was \$433,000 in advances from a company owned by an officer of the Corporation. The advances were non-interest bearing, had no specified terms of repayment and were unsecured. During the eleven month period ended December 31, 2001, the Corporation agreed to pay \$23,683 of interest on the advances and to convert the outstanding advances to a 15% interest bearing debenture (see note 7).

## 13. COMMITMENTS

Aggregate base payments required under all operating leases are as follows:

	\$
2002	409,491
2003	416,043
2004	426,252
2005	426,252
2006	316,877
Thereafter	95,522
	2,090,437

Under the terms of real property leases, the Corporation is responsible for all occupancy costs in addition to the base payments indicated above.

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the December 31, 2001 financial statements.

# Corporate Information

## BOARD OF DIRECTORS

Gregory L. Clarahan, B.Comm., C.A.  
President and C.E.O.  
Visionwall Incorporated

Robert (Jack) E. Grandbois, P.Eng.  
Vice President  
Visionwall Incorporated

Jan M. Alston, B.A., L.L.B.  
President and C.E.O.  
Purcell Energy Ltd.

Dr. Franz J. Albrecht  
Chairman  
Perlen Holding, AG

Peter Schaub  
Partner  
Weber Schaub and Partner

## OFFICERS AND KEY PERSONNEL

Gregory L. Clarahan, B.Comm., C.A.  
President and C.E.O.

Robert (Jack) E. Grandbois, P.Eng.  
Senior Vice President Sales and Marketing

Randy L. Pederson, B.Comm., M.B.A., C.G.A.  
Vice President Finance and C.F.O.

Alan H. Winfield, M.Sc., P.Eng.  
Vice President Engineering

Derek Simpson  
Vice President Manufacturing

Gary J. Zingle  
Installations Manager

Aldin (AI) V. McRae, P.Eng.  
Manager, Project Management

Robert A. Merther, B.S., M.B.A.  
United States Sales Manager

## STOCK EXCHANGE LISTING

TSX Venture Exchange  
Trading Symbol: VWLA

## TRANSFER AGENT

Computershare Trust Company of Canada  
Calgary, Alberta

## BANKER

Canadian Imperial Bank of Commerce  
Edmonton, Alberta

## LEGAL COUNSEL

Sharek Reay Barristers & Solicitors  
Edmonton, Alberta

Armstrong Perkins Hudson  
Calgary, Alberta

Emery Jamieson  
Edmonton, Alberta

## AUDITORS

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Edmonton, Alberta

## CORPORATE OFFICE

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Web Site: [www.visionwall.com](http://www.visionwall.com)

## WHOLLY-OWNED SUBSIDIARIES

Visionwall Corporation  
Visionwall Installations (2000) Ltd.  
Visionwall Technologies Inc.  
Visionwall Installations Ltd.  
Visionwall Manufacturing Ltd.  
Visionwall Contracting Ltd.



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